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NAVY MANAGEMENT CONTROLS OVER  
GENERAL AND FLAG OFFICER QUARTERS COSTS

Report No. D-2001-027

December 26, 2000

Office of the Inspector General  
Department of Defense

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### **Acronyms**

CNO	Chief of Naval Operations
GFOQ	General and Flag Officer Quarters
M&R	Maintenance and Repair
NAS	Naval Air Station
NAVFAC	Naval Facilities Engineering Command
NSA	Naval Support Activity



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-4704

December 26, 2000

MEMORANDUM FOR NAVAL INSPECTOR GENERAL

SUBJECT: Audit Report on Navy Management Controls over General and Flag Officer Quarters Costs (Report No. D-2001-027)

We are providing this report for your review and comment. This report is one in a series about general and flag officer quarters maintenance and repair costs and focuses on Navy management controls. We conducted the audit in response to the Department of Defense Appropriations Act, 2000, section 8114, which requires the Inspector General, Department of Defense, to conduct an audit of the Services' compliance with applicable appropriations law, Office of Management and Budget Circulars, and Undersecretary of Defense (Comptroller/Chief Financial Officer) directives governing the funding for maintenance and repairs to general and flag officer quarters.

Department of the Navy comments on the draft report were responsive and were considered in this final report. No further comments are required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Stephen T. Hampton, at (703) 604-9243 (DSN 664-9243) (shampton@dodig.osd.mil) or Mr. Wayne K. Million, at (703) 604-9312 (DSN 664-9312) (wmillion@dodig.osd.mil). See Appendix D for the report distribution. The audit team members are listed inside the back cover.

A handwritten signature in black ink, reading "Robert J. Lieberman", is positioned above the printed name.

Robert J. Lieberman  
Assistant Inspector General  
for Auditing

## Office of the Inspector General, DoD

**Report No. D-2001-027**

(Project No. D1999CG-0085.001)

**December 26, 2000**

### **Navy Management Controls over General and Flag Officer Quarters Costs**

#### **Executive Summary**

**Introduction.** This report is one in a series of reports on general and flag officer quarters (GFOQs). The Navy maintains approximately 153 GFOQs and has spent approximately \$9.5 million and \$9.2 million during FYs 1998 and 1999 respectively for maintenance and repair. This report focuses specifically on Navy management controls over maintenance and repair costs. This audit was initiated in response to the Department of Defense Appropriations Act, 2000, section 8114, which requires the Inspector General, Department of Defense, to conduct an audit of the Services' compliance with applicable appropriations law, Office of Management and Budget Circulars, and Under Secretary of Defense (Comptroller) directives governing the funding for maintenance and repairs to GFOQs.

**Objectives.** The overall objective was to evaluate the adequacy of Navy management controls over GFOQ maintenance and repair costs.

**Results.** The Navy's management controls over recording of GFOQ operations and maintenance costs were adequate but were not fully implemented. Specifically, housing personnel improperly charged operations and maintenance costs at 30 of the 40 GFOQs reviewed. Additionally, supporting documentation was not always available to justify the costs recorded. As a result, the Navy's accounting for GFOQ costs was unreliable. Consequently, the Navy's reports on GFOQ costs to the Congress and to the Office of the Secretary of Defense were inaccurate. Also, statutory, regulatory, or administrative violations may have occurred at six of the seven activities reviewed.

**Summary of Recommendations.** We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) initiate actions to investigate potential statutory, regulatory and administrative violations; perform a comprehensive review of FY 2000 GFOQ operations and maintenance costs to ensure reporting accuracy; revise FYs 1998 and 1999 GFOQ costs reports for the errors identified; and require periodic evaluations of GFOQ housing operations and quarterly detailed cost reporting. We also recommend that the Chief of Naval Operations direct the Commander, Naval Facilities Engineering Command and housing officials to initiate a complete review of all grounds maintenance costs to ensure that costs are charged to the GFOQ occupant unless a waiver has been granted and to comply with current Navy guidance on grounds maintenance.

**Management Comments.** The Department of the Navy generally concurred with the recommendations. The Navy stated that they would review the audit support data for those GFOQs that were identified; however, they have determined that there appear to be no threshold violations of statute for those quarters. The Navy stated that they would review the validity of the FYs 1998 and 1999 GFOQ charges for the 21 GFOQs that we

identified. The Navy further stated that they have begun a comprehensive review of family housing management as well as the recording, reporting, and review of operation and maintenance costs at those GFOQs. Cost errors and omissions identified in the audit report will be corrected and Congressional reports will be updated as necessary. The Navy recognized that management controls over GFOQs must be strengthened and stated that management control reviews will be initiated and performed on a 3-year cycle. Further the annual cost reporting requirements will change to a quarterly reporting requirement and the associated costs will be reviewed and certified as to the accuracy of each charge. Finally, the Navy will initiate a complete review of all grounds maintenance costs and will ensure that costs are charged to the GFOQ occupant unless a waiver has been granted.

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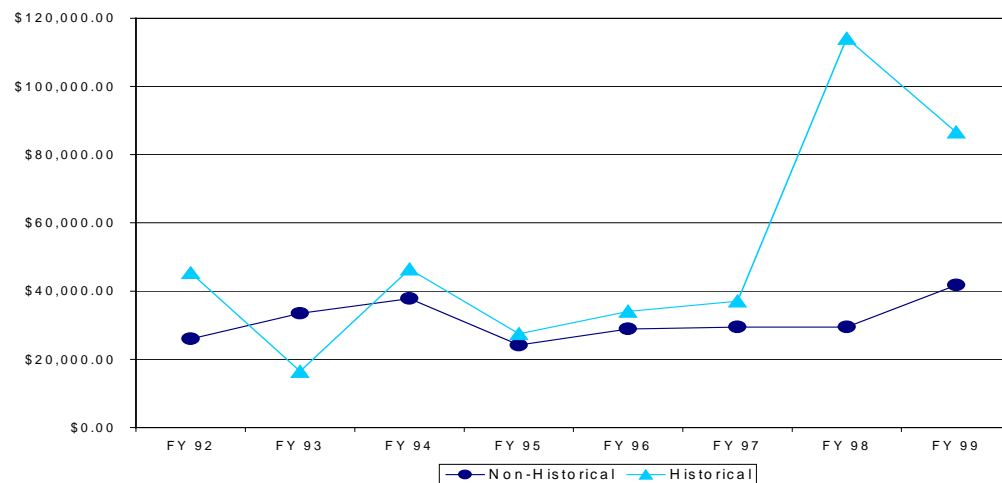
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## Background

The Department of Defense Appropriations Act, 2000, section 8119, required the Inspector General, DoD, to conduct an audit of compliance with applicable laws and regulations governing funding for maintenance and repair (M&R) of general and flag officer quarters (GFOQ). A series of audits has resulted. In Inspector General, DoD, Report No. D-2000-071, "Maintenance and Repair of DoD General and Flag Officer Quarters," January 27, 2000, we evaluated the use of funds other than family housing funds for M&R of GFOQs, and determined that potential violations of appropriations law may have occurred.

This report addresses the Navy's management controls over GFOQ costs. The Naval Facilities Engineering Command (NAVFAC) is responsible for administering the Navy family housing program, to include providing policy direction and guidance. The Navy family housing offices are responsible for managing the operations of 153 GFOQs throughout the world. Seventy-one of the 153 GFOQs are designated as historical properties. The Navy spent approximately \$9.5 million and \$9.2 million on GFOQ M&R in FYs 1998 and 1999 respectively. The following chart depicts average GFOQ M&R costs for Navy historical and non-historical properties as reported over the last eight fiscal years (FY 1999 reflects estimated costs).

**Navy Historical and Non-historical GFOQ M&R Averages**



The large increase in the average M&R spent on the historical GFOQs during FY 1998 and FY 1999 is due to the reimbursement of base operations and maintenance funds from family housing funds for work performed on three GFOQs totaling approximately \$3.6 million. Unique terms associated with GFOQ operations and costs are defined in Appendix B.

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## **Objectives**

The overall objective was to evaluate the adequacy of the Navy's management controls over GFOQ M&R costs. See Appendix A for a discussion of the scope, methodology, and prior audit coverage.



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## Implementation of Management Controls Over GFOQ Cost Recording

Navy management controls over GFOQ operations and maintenance costs were adequate but were not fully implemented. Navy housing personnel improperly charged operations and maintenance costs at 30 of the 40 GFOQs reviewed. Additionally, supporting documentation was not always available to justify the costs recorded. Those conditions occurred because Navy housing management officials did not provide adequate oversight of GFOQ cost recording to ensure the effectiveness of management controls. As a result, the Navy's accounting for GFOQ costs was unreliable. Consequently, the Navy's reports on GFOQ costs to the Congress and to the Office of the Secretary of Defense were inaccurate. Also, investigations of potential statutory, regulatory, or administrative violations were needed at six of the seven activities reviewed.

### Guidance on GFOQ Housing Management

**DoD Directive 5010.38.** "Management Control Program," August 26, 1996, requires DoD managers to implement a comprehensive strategy for management controls that provides reasonable assurance that programs are efficiently and effectively carried out in accordance with applicable laws and to continuously monitor and evaluate the adequacy of those controls.

**DoD Instruction 5010.40.** "Management Control Procedures," August 28, 1996, requires that each DoD Component develop a management control program that establishes a management control process, maintains an inventory of assessable units, and evaluates the effectiveness of management controls through a process or mechanism that provides feedback for corrective actions.

**DoD 7000.14-R.** "Financial Management Regulation," volume 6, "Reporting Policy and Procedures," provides guidance for establishing and maintaining uniform budget program accounts for the accumulation of obligations incurred for the family housing operations and maintenance program. The accounts discussed in this report include services, furnishings, utilities, and maintenance of real property facilities.

**SECNAVINST 5200.35D.** "Department of the Navy Management Control Program," December 10, 1997, provides policy for the Department of the Navy management control program, and clarifies management controls and accountability. The requirement for clear and readily available documentation is also set forth in this guidance. The guidance allows the commanders and managers at the activity level to decide what controls are necessary to meet the goals of the program. However, the guidance removes the requirements to perform vulnerability assessments and management control reviews in addition to eliminating many of the reporting requirements.

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**OPNAVINST, 11101.19E.** “Management of Flag and General Officer Quarters,” August 7, 1996, provides policy regarding the management of public quarters assigned to general and flag officers. Specifically, this instruction outlines annual cost limitations on GFOQ M&R and minor improvements at \$25,000 and \$3,000 respectively. This instruction also provides guidance on the occupant responsibility to perform grounds maintenance within one half acre of the GFOQ.

**OPNAVINST, 11101.29.** “Assignment of Authority and Responsibilities for Family Housing,” March 31, 1970, assigns authority and responsibilities for providing and administering family housing facilities and for executing family housing programs.

**NAVFAC P-930.** “Navy Family Housing Manual,” July 1999, provides guidance on the organization, management, programming, acquisition, and staffing of Navy family housing. It contains specific guidance on the classification of furnishings, M&R, and improvements as they relate to Navy family housing.

## **Accuracy of GFOQ Cost Recording**

Management controls should have ensured accurate recording of GFOQ costs, however, Navy housing personnel improperly charged operations and maintenance costs at 30 of the 40 GFOQs reviewed. Inaccuracies included improper cost classifications, cost omissions, and mathematical errors. Also, the Navy incorrectly recorded grounds maintenance costs that should have been charged to GFOQ occupants. Additionally, supporting documentation was not always available to verify the accuracy of costs recorded. A list of the 40 GFOQs that we reviewed is in Appendix C.

**Cost Classifications.** Navy housing personnel did not properly classify GFOQ costs totaling \$103,250 in accordance with DoD financial management regulations. DoD 7000.14R, volume 6, section 0903, specifies the budget program account structure and defines the basic scope and content of the accounts used for classifying family housing costs. Our analysis shows that costs incurred for appliances and kitchen renovations at GFOQ A, Naval Base Pearl Harbor, valued at \$34,360, were improperly classified to the furnishings account. The costs should have been charged to the M&R account. In another instance, at GFOQ V, Naval Support Activity (NSA), Washington, D.C., M&R costs totaling \$4,000 were incorrectly charged to the services and utilities accounts. Table 1 provides a detailed breakdown of the GFOQ costs that were improperly classified.

<b>Table 1. Improper GFOQ Cost Classifications</b>			
<b>Improper Classification</b>	<b>1998</b>	<b>1999</b>	<b>Total</b>
<b>Furnishings</b>			
Naval Base Pearl Harbor	\$43,860	\$25,570	\$69,430 <sup>1</sup>
Naval Base San Diego	948	4,648	5,596
NAS Corpus Christi	0	943	943
NSA Washington, D.C.	<u>966</u>	<u>0</u>	<u>966</u>
<b>Furnishings Total</b>	<b>\$45,774</b>	<b>\$31,161</b>	<b>\$76,935</b>
<b>Services</b>			
NSA Washington, D.C.	\$2,038	\$ 0	\$2,038
NAS Corpus Christi	<u>0</u>	<u>5,144</u>	<u>5,144</u>
<b>Services Total</b>	<b>\$2,038</b>	<b>\$5,144</b>	<b>\$7,182</b>
<b>Utilities</b>			
NSA Washington, D.C.	<u>\$1,962</u>	<u>\$ 0</u>	<u>\$1,962</u>
<b>Utilities Total</b>	<b>\$1,962</b>	<b>\$ 0</b>	<b>\$1,962</b>
<b>Maintenance and repair</b>			
Naval Base Pearl Harbor	\$ 292	\$ 4,796 <sup>2</sup>	\$ 5,088
Naval Base San Diego	4,891 <sup>2</sup>	0	4,891
NSA New Orleans	3,078 <sup>2</sup>	0	3,078
NSA Washington, D.C.	<u>0</u>	<u>4,114<sup>2</sup></u>	<u>4,114</u>
<b>Maintenance and repair total</b>	<b>\$ 8,261</b>	<b>\$ 8,910</b>	<b>\$ 17,171</b>
<b>Total costs improperly classified</b>	<b>\$58,035</b>	<b>\$45,215</b>	<b>\$103,250</b>
<sup>1</sup> Included in this total are costs for five shutter installation projects totaling \$27,360. Each of these projects had a cost exceeding \$3,000, and fit the description of an improvement, as defined in the NAVFAC P-930. As such, they were subject to the need for congressional approval, as required by OPNAVINST 11101.19E.			
<sup>2</sup> These costs represented improvement projects exceeding \$3,000, which were classified as dwelling M&R, when they should have been classified as minor improvements. Had they been classified properly, they would have been subject to congressional approval, as required by OPNAVINST 11101.19E.			

**Cost Omissions.** Housing officials at three of the seven activities did not completely identify and record complete GFOQ costs associated with 18 GFOQs totaling \$56,522. For example, at GFOQ K, Ford Island, Naval Base Pearl Harbor, costs totaling \$5,232 for work performed as part of the change of occupancy and the relocation of a washer and dryer were omitted on the GFOQ cost report. Table 2 shows the combined costs by activity for the 18 GFOQs whose operations and maintenance accounts were understated as a result of cost omissions.

<b>Table 2. GFOQ Costs Omitted</b>			
Budget Program Account/ Activity	FY 1998	FY 1999	Total
Maintenance and repair			
Naval Base Pearl Harbor	\$13,670	\$357	\$14,027
Naval Base San Diego	2,194	26,735	28,929
NAS Corpus Christi	<u>681</u>	<u>284</u>	<u>965</u>
<b>Total maintenance and repair costs omitted</b>	<b>\$16,545</b>	<b>\$27,376</b>	<b>\$43,921</b>
Furnishings			
Naval Base Pearl Harbor	\$3,617	\$6,702	\$10,319
NAS Corpus Christi	<u>179</u>	<u>0</u>	<u>179</u>
<b>Total furnishings costs omitted</b>	<b>\$3,796</b>	<b>\$6,702</b>	<b>\$10,498</b>
Services			
Naval Base Pearl Harbor	<u>\$1,444</u>	<u>\$ 659</u>	<u>\$ 2,103</u>
<b>Total services costs omitted</b>	<b>1,444</b>	<b>659</b>	<b>2,103</b>
<b>Total costs omitted</b>	<b>\$21,785</b>	<b>\$34,737</b>	<b>\$56,522</b>

**Mathematical Accuracy.** Six of the seven activities reviewed had cost recording inaccuracies that resulted from mathematical errors. The errors consisted of incorrect percentage rates applied, addition errors, and number transpositions. For example, housing personnel applied the incorrect percentage rate for administrative fees on credit card use for ten different transactions at GFOQ 1402 Orion Court, Naval Base San Diego, which resulted in a \$556 understatement for the M&R account.

**Grounds Maintenance Costs.** The Navy paid grounds maintenance costs for 16 GFOQs that should have been paid by the occupants. The occupant is responsible for grounds maintenance within one half acre of the housing unit according to OPNAVINST 11101.19E, unless the Chief of Naval Operations (CNO) grants a waiver. The CNO had not made a waiver decision for 15 of the 16 GFOQs identified. The CNO denied a waiver request for the remaining GFOQ B Naval Medical Center, Naval Base San Diego on November 1, 1993, however, the Navy still paid grounds maintenance costs of \$1,511 for FYs 1998 and 1999. The costs associated with the other 15 GFOQs could not be quantified because housing managers could not isolate costs attributable to the occupant's one half acre responsibility from total grounds maintenance costs. Table 3 shows the 16 GFOQs for which grounds maintenance costs should have been paid by the occupants instead of the Navy.

Table 3. Unauthorized Grounds Maintenance	
Activity	GFOQ
Naval Base Norfolk	SP 22
Naval Base Pearl Harbor	C A 201 Marine Barracks K Ford Island 23 Makalapa 28 Makalapa 32 Makalapa 34 Makalapa 35 Makalapa
Naval Base San Diego	B Naval Medical Center 303 Silvergate 355 Silvergate 1401 Orion, Miramar 1402 Orion, Miramar
NSA New Orleans	D

**Supporting Documentation.** The Navy family housing offices at all seven activities did not consistently maintain adequate supporting documentation of GFOQ costs as required by SECNAVINST 5200.35D. For example, the Navy could not provide documentation to support a charge of \$3,143 for the purchase and installation of ceiling fans and outdoor spotlights for GFOQ 1402 Orion Court, Naval Base San Diego. The only support documentation in the files was a work request form for material costs of \$150. Without complete documentation, a complete accounting of total cost cannot be determined or verified.

## Management Oversight

Navy housing management officials did not provide adequate oversight of GFOQ cost recording to ensure the effectiveness of management controls. Specifically, GFOQ housing supervisors did not consistently perform reviews of GFOQ costs to ensure that all costs were identified, properly classified, and recorded in accordance with applicable laws and departmental regulations.

**Housing Office Supervisory Reviews.** GFOQ housing supervisors did not consistently perform reviews on GFOQ cost recording. The errors we identified were indicative that GFOQ basic supervisory reviews, data edit checks, or reconciliations of GFOQ cost data had not been performed. Continuous monitoring and evaluation is a key element of management control standards that should have prevented inaccurate recording.

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We asked family housing officials if any internal or external reviews had been performed within the last two years to assess the overall level of risk associated with GFOQ costs and evaluate the effectiveness of management controls. Housing officials informed us that no reviews had been performed because they viewed the level of risk associated with GFOQs as low. However, housing officials were unable to provide any evidence that substantiated their risk perception. Due to the historically high Congressional and media interests in GFOQ costs, as well as frequent instances of questionable spending over the years, we disagree that this is a low risk area.

**NAVFAC Oversight.** NAVFAC did not provide effective oversight of GFOQ housing costs. NAVFAC did not perform adequate periodic reviews of management controls, did not require sufficient GFOQ cost data for review, and did not enforce the Navy's guidance concerning grounds maintenance waivers.

**Periodic Reviews of Operations.** OPNAVINST 11101.29 assigns NAVFAC the responsibility to perform periodic reviews of the efficiency, economy, and effectiveness of management, maintenance, and operation of family housing at Navy activities. NAVFAC officials stated that their engineering field divisions had conducted inspections of housing offices at the activity level. However, the focus of those visits, now referred to as housing assistance visits, concentrated on assisting the housing offices with issues and questions raised by the housing officials, rather than on self-initiated evaluations of management controls and operational effectiveness. NAVFAC's ability to ensure compliance with Navy housing guidance is limited without adequate reviews of management controls. For example, NAVFAC was unaware that housing officials in San Diego had continued to charge grounds maintenance costs for GFOQ B, Naval Medical Center to the Navy instead of the GFOQ occupant, despite a waiver being denied.

**GFOQ Cost Data Reviews.** NAVFAC did not require sufficient GFOQ cost data to review budget execution and program effectiveness and to effectively exercise its oversight role. NAVFAC engineering field divisions currently receive summary GFOQ cost reports on a quarterly basis. However, these summary cost reports do not include enough detail to enable NAVFAC to identify and correct cost reporting errors. Quarterly detailed cost reports already exist but are only provided to the GFOQ occupant by the housing offices for review. These detailed cost reports show line item expenses that comprise each of the GFOQ operation and maintenance accounts. NAVFAC engineering field division offices could use these reports to identify potential improper cost classifications, improvement projects in excess of the \$3,000 annual limitation, M&R costs in excess of the annual \$25,000 limitation, and other questionable costs. NAVFAC should require detailed cost reports in order to manage the GFOQ housing budget and to provide appropriate management oversight.

**Enforcement of Grounds Maintenance Guidance.** NAVFAC officials did not enforce Navy guidance concerning grounds maintenance costs. NAVFAC instructed the housing offices to charge grounds maintenance costs to the Navy instead of the occupant for those GFOQs awaiting a waiver decision. NAVFAC's actions did not comply with the requirements of OPNAVINST 11101.19E and were in direct conflict with its oversight responsibilities to enforce housing regulations.

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## Impacts of GFOQ Cost Recording Errors

The Navy's accounting for GFOQ costs was unreliable. Consequently, the Navy's reports on GFOQ costs to the Congress and the DoD were inaccurate. Also, once necessary corrections to GFOQ cost recording were made, the Navy needed to determine whether statutory, regulatory, or administrative violations may have occurred at six of the seven activities reviewed.

**Reliability of GFOQ Costs.** The Navy's accounting for GFOQ costs was unreliable. Maintenance and repair costs were understated by \$122,721. Furnishings, services, and utilities, were overstated by \$64,657, \$5,078 and \$1,962 respectively. Further, because adequate supporting documentation was not maintained, we were unable to fully validate the GFOQ costs recorded at 29 of the 40 GFOQs reviewed. Consequently, the Navy's GFOQ cost reports to Congress and the Office of the Secretary of Defense were inaccurate. The Navy needs to improve its management controls over GFOQ cost recording in order to produce reliable cost reports. Both Congress and the DoD require accurate and reliable GFOQ cost information for use in decisionmaking.

**Potential Statutory, Regulatory or Administrative Violations.** Corrections to GFOQ cost recording errors may reveal potential statutory, regulatory, or administrative violations at six of the seven activities reviewed. The Navy charged grounds maintenance costs to the Government for 16 GFOQs, instead of the occupants of those quarters, as required. The Navy's actions may have resulted in a misuse of Navy Family Housing funds. Also, improper cost classification errors caused applicable budget limitations to be exceeded. Budget limitations for M&R were exceeded by \$111,017. Congressional guidance and DoD policy require that M&R costs not exceed \$25,000 per GFOQ annually without prior congressional notification and approval. At times, Congress does approve an M&R budget greater than \$25,000 in one year, to fund major improvement projects. The housing office can exceed the approved amount by no more than \$5,000 before additional notification is required. Table 4 shows those GFOQs with M&R costs exceeding the annual limitation based on our audited M&R costs.

<b>Table 4. Maintenance and Repair (M&amp;R) Costs in Excess of Budget Limitations</b>				
Activity/GFOQ	Reported M&R	Audited M&R	Budget Limitation	M&R in Excess of Limitation
Fiscal Year 1998				
Naval Base Pearl Harbor				
A, FY 98	\$157,847	\$198,691	\$159,500	\$ 39,191
23 Makalapa, FY 98	24,729	27,994	25,000	2,994
NAS Corpus Christi				
SOQ 1, FY 98	24,583	25,233	25,000	233
NSA New Orleans				
E, FY 98	24,963	25,099	25,000	99
NSA Washington, D.C.				
V, FY 98	25,000	29,000	25,000	<u>4,000</u>
<b>Total Costs in Excess of Budget Limitations for FY 1998</b>				<b>\$ 46,517</b>
Fiscal Year 1999				
Naval Base Pearl Harbor				
A, FY 99	24,554	26,590	25,000	1,590
K Ford Island, FY 99	17,906	26,701	25,000	1,701
Naval Base San Diego				
355 Silvergate, FY 99	24,996	25,179	25,000	179
1402 Orion, FY 99	24,388	35,202	25,000	10,202
BC, NASNI, FY 99	48,804	61,199	53,700	7,499
V, NASNI, FY 99	24,300	31,657	25,000	6,657
NAS Corpus Christi				
SOQ 1, FY 99 <sup>1</sup>	295,688	300,272	263,600	<u>36,672</u>
<b>Total Costs in Excess of Budget Limitations for FY 1999</b>				<b>\$ 64,500</b>
<b>Grand Total</b>				<b>\$111,017</b>
<sup>1</sup> The \$295,688 shown in the reported M&R column represents the M&R amount listed on the corrected annual GFOQ Management Report submitted after our prior audit. Of the \$36,672 exceeding the budget limitation, \$4,584 was identified during this audit.				

## Management Actions

The Navy is in the process of drafting new guidance on GFOQs. NAVFAC officials stated that draft guidance under review would reduce the limit on M&R costs to \$20,000 annually instead of \$25,000.

## Conclusion

Neither the Navy nor the GFOQ occupants were well served by poor cost accounting and lax application of management controls. The conditions identified during the audit could have been identified and corrected had housing offices



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established and consistently implemented standard operating procedures for reviewing the accuracy of GFOQ cost data and ensured compliance with applicable laws and regulations. Similarly, the housing offices would be more apt to verify accuracy and compliance if NAVFAC held those offices accountable by periodically reviewing the effectiveness of management controls and housing office performance in managing GFOQs.

## **Recommendations, Management Comments, and Audit Response**

**Revised Recommendation.** As a result of subsequent discussions with the Navy and management comments, we revised the wording of Recommendation 1.b. to limit the review required by the Navy of prior year GFOQ operation and maintenance costs.

**1. We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller):**

**a. Initiate actions to investigate potential statutory, regulatory or administrative violations for the following GFOQs:**

- Naval Base Norfolk, Virginia, GFOQ SP-22;
- Naval Base Pearl Harbor, Hawaii, GFOQs A, C, K, 23, 28, 32, 34, 35, and 201;
- Naval Base San Diego, California, GFOQs 303, 355, B Naval Medical Center, 1401, 1402, V and BC;
- Naval Air Station Corpus Christi, Texas, GFOQ SOQ-1;
- Naval Support Activity, New Orleans, Louisiana, GFOQs D and E; and
- Naval Support Activity, Washington, D.C., GFOQ V.

**Management Comments.** The Department of the Navy concurred in principle and stated that they would review the audit support data for the GFOQs identified. They have already determined that there appears to be no threshold violations of statute for those quarters.

**b. Perform a comprehensive review of operations and maintenance costs for all GFOQs for FY 2000 and the 21 GFOQs identified in this report for FYs 1998 and 1999, to ensure that costs were incurred as authorized, classified correctly, completely captured, recorded accurately, and sufficiently documented.**

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**Management Comments.** The Department of the Navy concurred and stated that they will review the validity of the FYs 1998 and 1999 GFOQ charges for the 21 GFOQs that we identified. The Navy further stated that they have begun a comprehensive review of the family housing management and the recording, reporting, and review of operation and maintenance costs at those GFOQs.

**c. Ensure that GFOQ costs have been corrected for FYs 1998 and 1999, and congressional reporting of GFOQ costs are updated to reflect accounting error corrections.**

**Management Comments.** The Department of the Navy concurred and stated that cost errors and omissions for FYs 1998 and 1999 for the 21 GFOQs identified in the audit report will be corrected and that the office of the Assistant Secretary of the Navy (Installation and Environment) will ensure that any required updates to Congressional reports are made.

**d. Require periodic evaluations of the effectiveness of GFOQ housing management controls to ensure compliance with applicable laws and regulations.**

**Management Comments.** The Department of the Navy concurred and stated that the Department recognizes that management controls over GFOQs must be strengthened. The Navy further stated that of the Assistant Secretary of the Navy (Installation and Environment) will require such reviews and that the Navy Facilities Engineering Command, in coordination with the management commands, will perform those reviews on a minimum 3-year cycle.

**e. Direct the Commander, Naval Facilities Engineering Command to require all Navy housing offices to submit detailed (to include individual line item costs for each operations and maintenance account) GFOQ cost reports on a quarterly basis in order for Naval Facilities Engineering Command officials to review costs for accuracy and compliance with budget limitations.**

**Management Comments.** The Department of the Navy concurred and stated that the Assistant Secretary of the Navy (Installation and Environment) will direct that the current annual cost report requirement will change to a quarterly report requirement. Further, the Navy will require that the associated costs be reviewed and certified as to the accuracy of each charge.

**2. We recommend that the Chief of Naval Operations direct the Commander, Naval Facilities Engineering Command and housing officials to initiate a complete review of all grounds maintenance costs to ensure that costs are charged to the GFOQ occupant unless a waiver has been granted and comply with current Navy guidance on grounds maintenance.**

**Management Comments.** The Department of the Navy concurred.

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## Appendix A. Audit Process

### Scope

**Work Performed.** We conducted the audit of management controls over GFOQ costs as a follow up to our previous audit, Report No. D-2000-071, “Maintenance and Repair of DoD General and Flag Officer Quarters,” January 27, 2000. During the audit, we interviewed budgeting personnel, housing managers, and public works personnel from activities under different major commands throughout the Navy. We analyzed family housing cost documentation for 40 Navy GFOQs, along with the computer financial processes for tracking GFOQ costs for FYs 1998 and 1999. We conducted reconciliations of costs reported on the GFOQ quarterly cost reports to the supporting documentation.

**Limitations to Scope.** We limited the scope of our review to Navy-operated GFOQs, because the Navy’s average annual maintenance and repair costs were approximately 50 percent higher than the other Services.

**DoD-Wide Corporate Level Government Performance and Results Act Coverage.** In response to the Government Performance and Results Act, the Secretary of Defense annually establishes DoD-wide corporate level goals, subordinate performance goals, and performance measures. Although the Secretary of Defense has not established any goals for Information Assurance, the General Accounting Office lists it as a high-risk area. This report pertains to Information Assurance as well as to achievement of the following goal, subordinate goal, and performance measure:

**FY 2000 DoD Corporate Level Goal:** Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. **(00-DoD-2).** **FY 2000 Subordinate Performance Goal 2.3:** Streamline the DoD infrastructure by redesigning the Department’s support structure and pursuing business practice reforms. **(00-DoD-2.3).** **FY 2000 Performance Measure 2.3.1:** Percentage of the DoD Budget Spent on Infrastructure. **(00-DoD-2.3.1).**

**General Accounting Office High-Risk Area.** The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the Defense Infrastructure high-risk area.

### Methodology

**Use of Computer-Processed Data.** To achieve the audit objectives, we relied extensively on computer-processed data contained in the Fund Administration and Standardized Document Automation (FASTDATA), Standardized Accounting

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Reporting System (STARS), Flag Track, Maximo, and other automated databases. Our review of system controls and the results of data tests showed discrepancies that cast doubts on the validity of the data. However, when the data are reviewed in the context of other available evidence, we believe that the opinions, conclusions, and recommendations in this report are valid.

**Universe and Sample.** To achieve the audit objective, we judgmentally selected GFOQs at seven different activities. At each activity we reviewed a judgmental sample of GFOQ expenditures for FYs 1998 and 1999.

**Contacts During the Audit.** We visited or contacted individuals and organizations within DoD. Further details are available on request.

**Audit Type, Dates, and Standards.** We performed the financial-related audit from January 2000 through August 2000, in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD.

## **Prior Coverage**

During the last 5 years, the Inspector General, DoD, the Naval Inspector General, the Naval Audit Service, and the Air Force Audit Agency each issued reports on GFOQs.

### **Inspector, General, DoD**

Inspector General, DoD, Audit Report NO. D-2000-071, "Maintenance and Repair of DoD General and Flag Officer Quarters," January 27, 2000

### **Navy**

The Office of the Naval Inspector General, Report of Investigation, "Senior Official Case 990441; Alleged Misuse of Operating Funds for Maintenance and Repair of Flag Officer Quarters," October 27, 1999 (FOUO)

The Naval Audit Service, Audit Report NAVAUDSVC P-7520.1, "Management of Family Housing Operations and Maintenance Resources," December 4, 1998 (FOUO)

### **Air Force**

The Air Force Audit Agency, Audit Report 99052030, "United States Air Force Academy General Officer Quarters," October 26, 1999

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## Appendix B. Definitions and Terms

Financial Management Regulation, volume 6, “Reporting Policy and Procedures,” provides DoD Components with uniform procedures for consistently identifying, accumulating, and reporting family housing program costs. Those uniform budget program accounts include furnishings, maintenance of real property facilities, services, and utilities, and are defined below.

**Furnishings.** The furnishings account accumulates costs for initial acquisition, maintenance, repair, and replacement of furnishings, furniture, movable household equipment, and authorized miscellaneous items.

**Maintenance of Real Property Facilities.** The maintenance of real property facilities account is a summary account for consolidating costs accumulated in the dwelling, exterior utilities, other real property, alterations and additions, and various other subordinate accounts.

**Maintenance and Repair.** NAVFAC P-930 defines repair as the restoration of real property to a condition that it can be effectively used for its designated purpose and that does not increase the property value. Parts used in the repair should be approximately equal in quality and size or capacity to the item removed. There are also specific cost limitations on the amount of M&R allowed per year for each GFOQ.

**GFOQs Maintenance and Repair Cost Limitation.** According to the OPNAVINST 11101.19E, the maximum dollar amount that can be spent for GFOQ M&R expenses per year is \$25,000. This instruction also allows for exceeding the limitation subject to prior congressional notification and subsequent approval. The intent of the \$25,000 limitation is not to force activities to obligate or expend the \$25,000 amount per GFOQ as a requirement each year, when work is not necessary. Rather, funds are simply available if work is required to maintain the GFOQ to the standard that a “prudent landlord” would do in a similar circumstance.

**Grounds Maintenance.** Grounds maintenance, as defined by DoD and Navy guidance, includes cutting the grass, raking the yard, pruning, and trash removal at assigned living quarters.

**Improvements.** Improvements are defined in the NAVFAC P-930 as “alterations, conversions, modernization, or additions-expansions-extensions for the purpose of enhancing rather than repairing a facility or system.” There is also a cost limitation on the amount of improvements allowed per year.

**GFOQs Improvement Cost Limitation.** The OPNAVINST 11101.19E states that any alterations, additions, or improvements to a GFOQ above \$3,000 annually must have prior congressional approval. This \$3,000 amount is included in the \$25,000 M&R limitation for GFOQ expenditures.

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**Services.** The services account accumulates costs for such services as refuse collection and disposal, fire and police protection, extermination services, and custodial services performed in common service areas such as snow removal, street cleaning, and municipal type services.

**Utilities.** The utility operations account is a summary account for accumulating costs for utilities consumed in family housing. This account excludes the costs of M&R of utility systems identified to the family housing property covered under the maintenance of real property facilities account.

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## Appendix C. GFOQs Reviewed

Major Command and Activity	GFOQ	
Commander-In-Chief, Atlantic Fleet Naval Base Norfolk	F-35E G-30 F-32 SP-20 A Little Creek	F-35W G-31E M101 SP-22
Commander-In-Chief, Pacific Fleet Naval Base Pearl Harbor	A 23 Makalapa 32 Makalapa 35 Makalapa 201 Marine Corps Barracks	C 28 Makalapa 34 Makalapa K Ford Island
Naval Base San Diego	A NAS North Island B NAS North Island BA NAS North Island B Naval Medical Center 303 Silvergate	1401 Orion, Miramar 1402 Orion, Miramar BC NAS North Island V NAS North Island 355 Silvergate
Commander Naval Education and Training NAS Corpus Christi NAS Pensacola, FL	SOQ-1 A	SOQ-11 4
Commander Naval Reserve Forces NSA New Orleans	A C	D E
Naval District Washington NSA Washington, D.C	B G	R V

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## **Appendix D. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense for Acquisition, Technology, and Logistics  
Deputy Under Secretary of Defense (Installations)  
Under Secretary of Defense (Comptroller/Chief Financial Officer)  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)

### **Department of the Army**

Auditor General, Department of the Army

### **Department of the Navy**

Assistant Secretary of the Navy (Financial Management and Comptroller)  
Assistant Secretary of the Navy (Manpower and Reserve Affairs)  
Naval Inspector General  
Auditor General, Department of the Navy  
Naval Audit Service  
Commander, Naval Facilities Engineering Command

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Department of the Air Force

### **Unified Commands**

Commander in Chief, U.S. Atlantic Command  
Commander in Chief, U.S. Pacific Command  
Deputy Commander in Chief, and Chief of Staff, U.S. Pacific Command

### **Other Defense Organizations**

Director, Defense Logistics Agency  
Director, National Security Agency/Central Security Service  
Inspector General, National Security Agency

### **Non-Defense Federal Organization**

Office of Management and Budget



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## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Reform  
House Subcommittee on Government Management, Information, and Technology,  
Committee on Government Reform  
House Subcommittee on National Security, Veterans Affairs, and International Relations,  
Committee on Government Reform



# Department of the Navy Comments



DEPARTMENT OF THE NAVY  
OFFICE OF THE ASSISTANT SECRETARY  
(FINANCIAL MANAGEMENT AND COMPTROLLER)  
1000 NAVY PENTAGON  
WASHINGTON, D.C. 20380-1000

DEC 4 2000

MEMORANDUM FOR DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR  
GENERAL FOR AUDITING

Subj: DEPARTMENT OF DEFENSE INSPECTOR GENERAL (DODIG) DRAFT  
AUDIT REPORT ON NAVY MANAGEMENT CONTROLS OVER GENERAL  
AND FLAG OFFICER QUARTERS COSTS (PROJECT  
No. D1999CG-0085.001) - INFORMATION MEMORANDUM

Ref: (a) DODIG memo of 12 Oct 00

Encl: (1) Department of the Navy (DoN) Comments

In response to reference (a), we have reviewed the draft report findings and recommendations and have initiated appropriate corrective actions. We have begun a comprehensive review of family housing office management, and the recording, reporting, and review of operations and maintenance costs at the General and Flag Officer Quarters (GFOQs) identified in Recommendation 1.

We are reinvigorating the management and oversight of the family housing program within the Department of the Navy. This includes strengthening internal controls and the management review process for the operation and maintenance of family housing, including the GFOQ program. One of our objectives is to improve the accuracy of GFOQ cost reporting.

Department of the Navy comments on the draft audit recommendations and details of our specific actions and initiatives are provided as enclosure (1).

CHARLES P. NEMAIKOS  
Senior Civilian Official

Copy to:  
NAVINGEN-04  
DUSD (INSTALLATIONS)

**DEPARTMENT OF THE NAVY RESPONSE TO  
DODIG DRAFT AUDIT REPORT ON  
NAVY MANAGEMENT CONTROLS OVER  
GENERAL AND FLAG OFFICER QUARTERS COSTS  
PROJECT NO. D1999CG-00085.001**

**Recommendation 1.a.** Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) (OASN(FM&C)) initiate actions to investigate potential statutory, regulatory or administrative violations for the 21 General and Flag Officer Quarters (GFOQs) listed in Recommendation 1.

**Department of the Navy Response.** Concur in principle. The OASN(FM&C) staff met with that of the DODIG to determine a method of conducting the review requested in the draft report. It was agreed that the Navy would review the DODIG audit backup data for FY 1998 and FY 1999 to determine the validity of the GFOQ charges. Since the \$25,000 GFOQ statutory limitation did not become effective until FY 2000, by Section 128 of the FY 2000 Military Construction Appropriations Act, there appears to be no threshold violations of statute at the quarters identified in the draft report.

**Recommendation 1.b.** OASN(FM&C) perform a comprehensive review of GFOQ operations and maintenance costs for FYs 1998, 1999, and 2000, to ensure that costs were incurred as authorized, classified correctly, completely captured, recorded accurately, and sufficiently documented.

**Department of the Navy Response.** Concur. Based upon discussions with the audit team subsequent to release of the draft report, it is our understanding this recommendation will be revised to recommend a review of FY 2000 costs for all GFOQs, and of FY 98 and FY 99 costs for only the 21 identified GFOQs. The Navy, as discussed in the response to recommendation 1.a., will review the DODIG audit backup data for FY 1998 and FY 1999 to determine the validity of the GFOQ charges.

The Assistant Secretary of the Navy (Installations and Environment) (ASN(I&E)) has management oversight of the family housing program. The ASN(I&E), OASN(FM&C), and the Chief of Naval Operations (CNO) staffs will assist COMNAVFACENGCOM with this review, as required.

Enclosure (1)

Revised  
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**Recommendation 1.c.** OASN(FM&C) ensure that GFOQ costs have been corrected for the FYs 1998 and 1999, and Congressional reporting of GFOQ costs are updated to reflect accounting error corrections.

**Department of the Navy Response.** Concur. As agreed in discussions with the audit team, the COMNAVFACENGCOM staff is reviewing the data provided in the audit to ensure that any cost errors and omissions for FYs 1998 and 1999 are corrected for the 21 GFOQs identified in Recommendation 1. ASN(I&E) will ensure any required updates to Congressional reporting are made.

**Recommendation 1.d.** OASN(FM&C) require periodic evaluations of the effectiveness of GFOQ housing management controls to ensure compliance with applicable laws and regulations.

**Department of the Navy Response.** Concur. ASN(I&E) has oversight for this recommendation and will require periodic reviews. The Department recognizes that Navy family housing program management internal controls must be strengthened. COMNAVFACENGCOM, in coordination with the management commands responsible for the individual family housing and GFOQ units, plans to institute formal reviews of regional command and activity family housing office operations to ensure compliance with applicable laws and regulations. These formal reviews are planned for a minimum three-year cycle.

As a result of recent events, ASN(FM&C) chartered a multi-functional group to review family housing funding and management practices. The group's mission was to determine if systemic problems or lack of internal controls lead to recent problems. The group's work has been completed, and its findings and recommendations are due out soon.

**Recommendation 1.e.** OASN(FM&C) direct the Commander, Naval Facilities Engineering Command to require all Navy housing offices to submit detailed (to include individual line item costs for each operations and maintenance account) GFOQ cost reports on a quarterly basis in order for Naval Facilities Engineering Command officials to review costs for accuracy and compliance with budget limitations.

**Department of the Navy Response.** Concur. ASN(I&E) will direct that the current annual requirement for GFOQ cost reports be changed to a quarterly report submission requirement. For FY 2000, the Navy intends to have the costs associated with each GFOQ reviewed and certified at the organizational level as to

the accuracy of each charge. This certification will be reviewed by the appropriate chain of command during the preparation of the FY 2000 Congressional GFOQ report required by 10 USC 2821, Section 128.

**Recommendation 2.** The Chief of Naval Operations direct Commander, Naval Facilities Engineering Command and housing officials to initiate a complete review of all grounds maintenance costs to ensure that costs are charged to the GFOQ occupant unless a waiver has been granted and comply with current Navy guidance on grounds maintenance.

**Department of the Navy Response.** Concur.

## **Audit Team Members**

The Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report. Personnel of the Office of the Inspector, DoD, who contributed to the report are listed below.

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